

Economic and Revenue Outlook for Kentucky

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Consensus Forecasts: A Brief History

- ◆ **The Consensus Forecasting Group Makes Three Forecasts Prior to Regular Budget Sessions**
 - ◆ **August** – Preliminary Planning Forecast (SCOPE forecast)
 - ◆ **October** – Preliminary Budget Forecast
 - ◆ **January** – “**Official Forecast**” for Regular Budget Session
- ◆ **U.S. Economic Outlook Has Changed Since the Last Official Forecast (January, 2004)**
- ◆ **Also, Revenue Receipts Exceeded Expectations in 3rd Quarter of 2004 Fiscal Year (and for months of April and May)**
- ◆ **Given the Increased Revenue Receipts, this Revision was Prepared at the Request of the State Budget Director**

Economic Outlook:

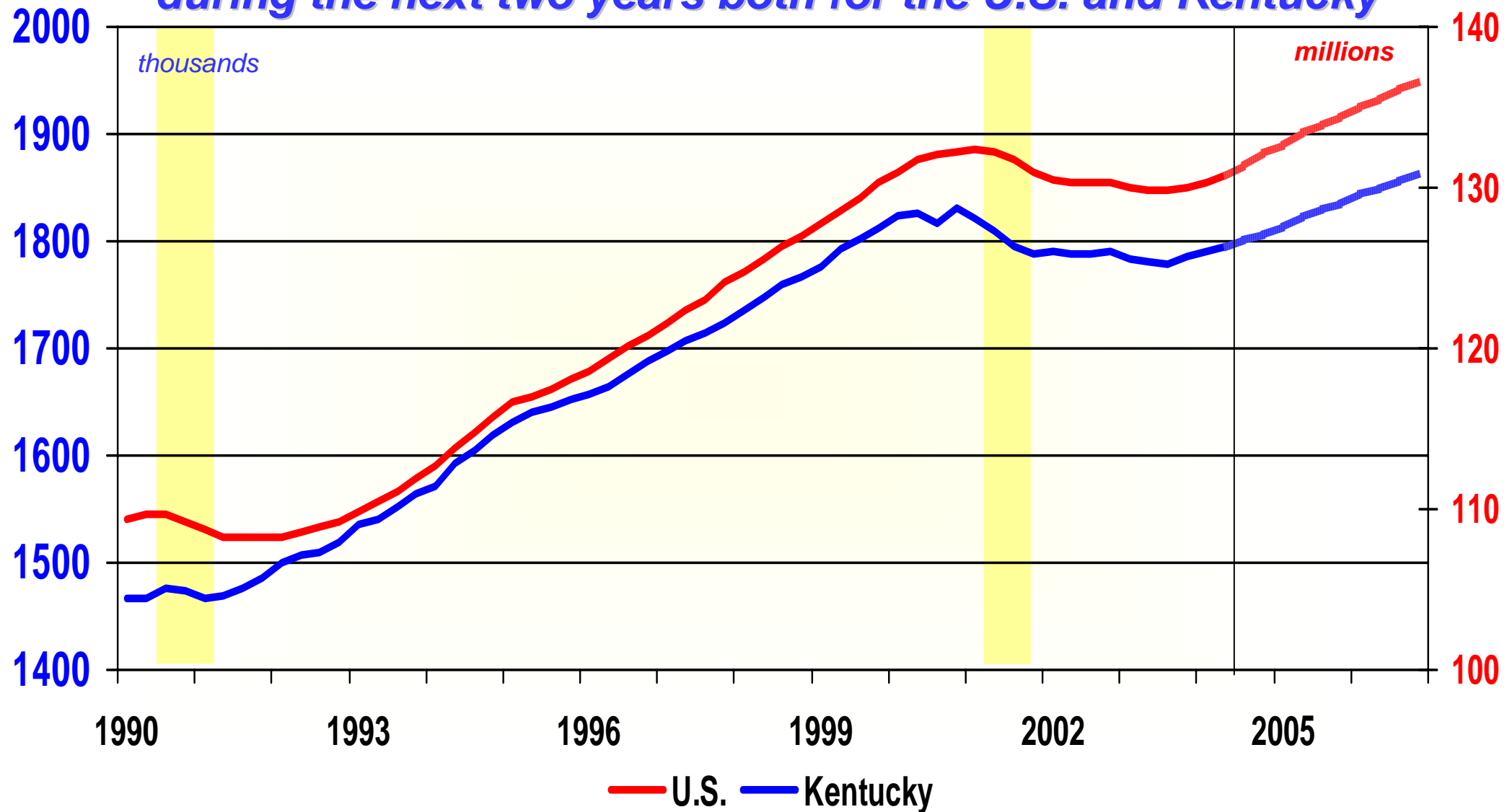
***The Recovery Takes Place Earlier Than
Anticipated in January, 2004***

Nonagricultural Employment Trend in Kentucky (Jan-00 to Jan-04)

seasonally adjusted, in thousands



Nonagricultural employment is forecasted to expand during the next two years both for the U.S. and Kentucky



U.S. and Kentucky Economic Indicators Have Changed Since January for FY 04

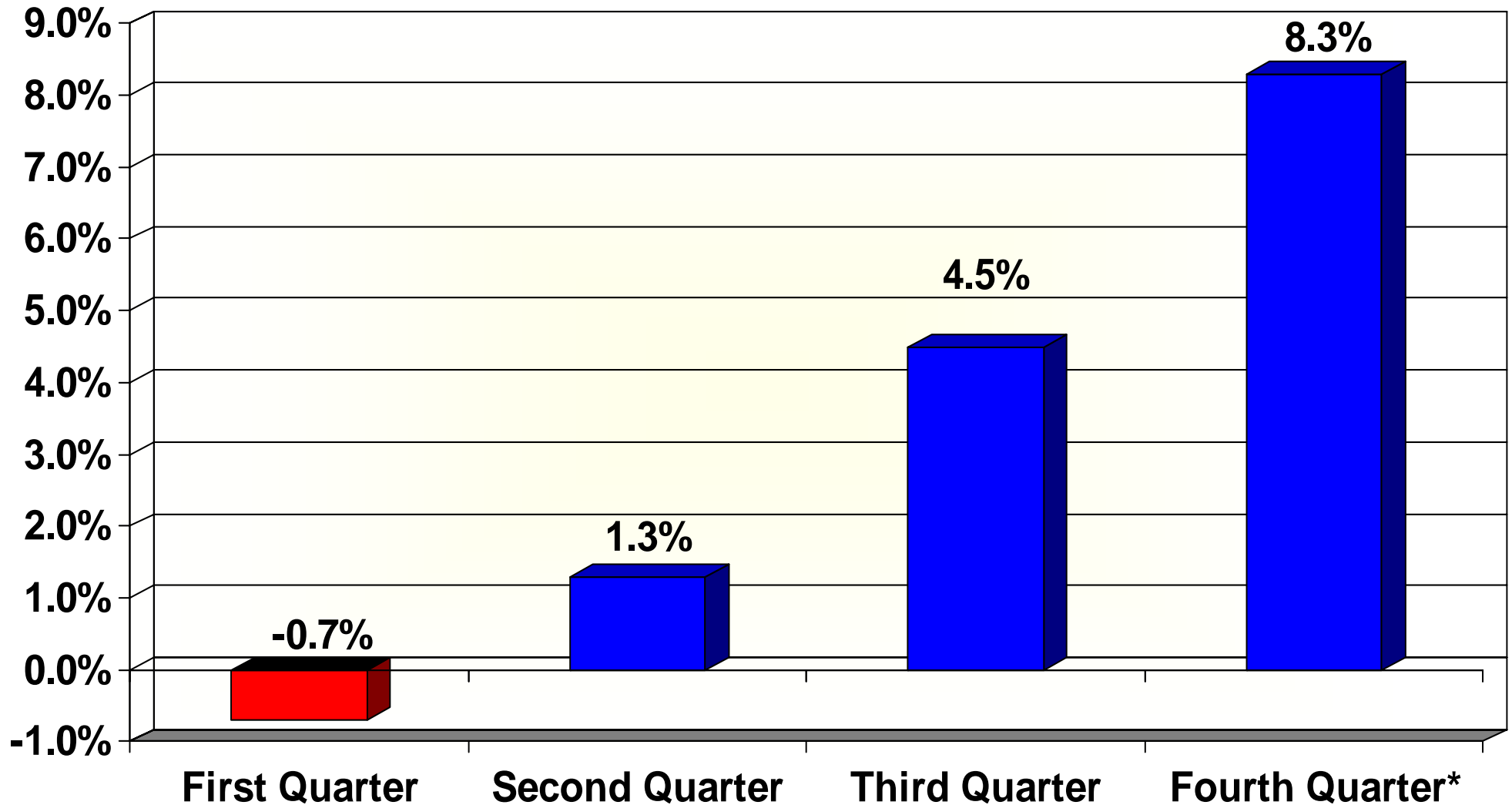
	Nov 03/Jan	May 04
■ U.S. Real GDP	4.1%	4.5%
■ Rate of Inflation	1.7%	2.1%
■ Consumer Sentiment	90.7	93.5
■ Personal Income		
➤ U.S.	4.1%	4.5%
➤ Kentucky	3.4%	4.5%
■ Nonagricultural Employment		
➤ U.S.	0.1%	0.1%
➤ Kentucky	0.1%	0.1%

U.S. and Kentucky Economic Indicators Have Changed for FY 05 and FY 06 As Well (since January Forecast)

	<i>FY05</i>		<i>FY06</i>	
	Nov 03	May 04	Nov 03	May 04
■ U.S. Real GDP	4.0%	4.3%	3.3%	3.1%
■ Rate of Inflation	1.6%	1.9%	1.9%	1.4%
■ Consumer Sentiment	93.4	93.7	90.4	92.2
■ Personal Income				
➤ U.S.	5.6%	5.1%	5.5%	5.1%
➤ Kentucky	5.1%	4.7%	5.2%	4.7%
■ Nonagricultural Employment				
➤ U.S.	2.1%	1.7%	1.9%	1.8%
➤ Kentucky	2.0%	1.4%	1.7%	1.6%

Kentucky's Revenue Outlook:
Recent Trends and Revised Forecast

General Fund Growth in FY04



* The Fourth Quarter is incomplete. Only April and May 2004 data is available.

General Fund
Consensus Forecast: June 2004
(millions of dollars)

	FY04		FY05		FY06	
	<u>Estimate %Chg</u>		<u>Estimate %Chg</u>		<u>Estimate %Chg</u>	
Sales & Use	2,451.4	3.7	2,564.5	4.6	2,680.9	4.5
Individual Income	2,803.9	2.1	2,930.0	4.5	3,050.0	4.1
Corporation Inc & Lic	415.1	-3.6	467.8	12.7	503.0	7.5
Coal Severance	145.1	2.4	158.5	9.2	151.1	-4.7
Property	448.2	3.1	465.8	3.9	488.5	4.9
Lottery	173.8	1.6	180.0	3.6	167.0	-7.2
Other	536.7	8.5	482.4	-10.1	487.0	1.0
Total General Fund	6,974.2	2.8	7,249.0	3.9	7,527.5	3.8

General Fund
Difference Between the January and June CFG Forecasts
(millions of dollars)

	FY04	FY05	FY06
Sales & Use	48.7	4.0	-3.6
Individual Income	70.4	40.8	7.7
Corporation Inc & Lic	0.2	-1.1	29.0
Coal Severance	9.0	25.9	22.4
Property	1.7	6.0	8.0
Lottery	10.0	19.5	9.2
Other	-1.0	0.2	-2.2
Total General Fund	139.0	95.3	70.5

Road Fund
Consensus Forecast: June 2004
(millions of dollars)

	FY04		FY05		FY06	
	<u>Estimate</u>	<u>%Chg</u>	<u>Estimate</u>	<u>%Chg</u>	<u>Estimate</u>	<u>%Chg</u>
Motor Fuels & MF Use/Surtax	460.3	1.4	483.7	5.1	472.7	-2.3
Motor Vehicle Usage & Rental	429.9	-0.7	444.2	3.3	445.0	0.2
License & Privilege (excl. WD)	112.5	17.7	111.9	-0.5	111.6	-0.3
Weight Distance Tax/Surtax	79.5	3.4	80.4	1.1	83.9	4.4
Tolls	7.8	-41.4	6.1	-21.8	6.3	3.3
Investment	7.7	-73.5	3.4	-55.8	4.3	25.0
Other	19.1	-10.3	19.6	2.6	20.0	2.0
Total Road Fund	1,116.8	-0.6	1,149.3	2.9	1,143.8	-0.5

Road Fund

Difference Between the January and June CFG Forecasts (millions of dollars)

	FY04	FY05	FY06
Motor Fuels & MF Use/Surtax	1.5	10.8	-7.9
Motor Vehicle Usage & Rental	-7.5	-2.6	-9.2
License & Privilege (excl. WD)	3.8	3.3	1.9
Weight Distance Tax/Surtax	0.3	-2.3	-2.2
Tolls	0.8	-0.1	-0.2
Investment	-3.1	0.9	0.8
Other	-1.6	-2.1	-1.9
Total Road Fund	-5.8	7.9	-18.8